



**Kentucky Retirement Systems
Division of Internal Audit Administration**

Policies and Procedures Manual

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DIVISION OF INTERNAL AUDIT ADMINISTRATION

1. KRS Goals and Internal Audit Activities

KRS Mission	Internal Audit Mission
Kentucky Retirement Systems (KRS) serves its stakeholders by promoting long-term financial security while building the strength of the trust funds to ensure that adequate resources are available to meet the systems' current and future obligations.	The mission of the Division of Internal Audit Administration is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.
KRS Goals	Internal Audit Activities to Achieve this Goal
1. Leadership by Cost effective and efficient management,.	Evaluate the adequacy and effectiveness of the system of internal control; review the means of safeguarding assets; and assess the economy, efficiency, and effectiveness with which resources are employed.
2. Deliver service to our membership in an accurate, courteous, prompt, and professional manner.	Ensure compliance with policies, procedures, plans, regulations, and other applicable laws; review operations and ensure they are consistent with KRS' established objectives and goals; and, assess the adequacy of established systems and procedures.
3. Acknowledge our fiduciary responsibility to conduct business under the highest ethical standards, acting with good-faith and care, with commitment to fostering a culture of accountability and transparency, and in compliance with its mission and the law.	Assure the reasonableness of financial statements; relevance, reliability, honesty, and integrity of management; financial and operating data and reports; and conduct special assignments and investigations on behalf of the Board of Trustees and Executive Management.

2. Introduction

Core Principles of Internal Audit

- Remain objective and free from undue influence (independent).
- Demonstrate competence and due professional care.
- Demonstrate integrity.
- Support the strategies, objectives, and risks of the organization.
- Remain adequately resourced.
- Promote quality and continuous organizational improvement by communicating effectively; providing risk-based assurance; and remaining insightful, proactive, and future-focused.

Comparison of Internal and External Auditor Duties

Internal Auditors	External Auditors
Report on the state of governance, risk management, and organizational internal controls to Executive Management, the Audit Committee, and the Board of Trustees.	Report on the accuracy of annual reports and financial statements to shareholders and the public.
Focus on the whole organization, all departments, functions, and operations.	Focus on finance and accounting.
Review adequacy of controls designed to ensure that risks are effectively managed. Test key controls to ensure they are operating as intended.	Identify risks and assess controls over financial reporting. Gain sufficient audit evidence to conclude that financial statements are accurate.
Provide recommendations to improve the overall internal control environment and to improve operational performance of the organization as a whole.	Make recommendations to improve the financial control environment.

Purpose and Activities

The Internal Audit (IA) function is established to assist the Kentucky Retirement Systems' (KRS) Executive Director, Executive Management, and Board of Trustees (Board) to attest to its governance role and achieve sound managerial control over all operational aspects of KRS including, but not limited to, accounting, benefits, legal compliance, asset management, and information management and control systems. The overall objective of IA is to assist all levels of management in the effective discharge of their responsibilities by providing independent analysis, appraisals, advice, counsel, and recommendations concerning the activities reviewed. In carrying out its duties and responsibilities, IA will have full, unfettered, and unrestricted access to all agency activities, records, property, and personnel.

IA seeks to identify risks, evaluate controls, and make recommendations that will strengthen the business operations of KRS. IA provides assistance to improve the performance and accountability of KRS by assessing the reliability of financial and operating information; evaluating the efficiency and effectiveness of other divisions; testing the adequacy of controls for preventing waste and safeguarding assets; and verifying compliance with policies, procedures, laws, and regulations. IA also advises and provides KRS employees ways to increase internal control knowledge, awareness, and assessment capabilities; promotes continuous improvement by making appropriate recommendations for improving the governance process; and assuring reasonableness of the financial statements. In addition, IA promotes ethics and values within KRS; communicates risk control information to appropriate areas of KRS; and coordinates activities with the Audit Committee, Board of Trustees, Executive Management, and the External Auditor, if necessary.

Independence, Objectivity, and Ethics

The audit function is a staff and advisory role reporting functionally to the Audit Committee and the Board and administratively to the KRS Executive Director. The Internal Audit Director is, therefore, considered independent of KRS operations. Functionally means the Audit Committee approves items including, but not limited to the Audit Plan, various audit Charters, the audit budget, staffing, and organizational structure of the internal audit function. Administratively means the Internal Audit Director and KRS Executive Director work together on day-to-day activities including, but not limited to leave reporting, training, travel, development of the Audit Plan, and staffing requirements.

Objectivity is essential to the audit function. Therefore, the Internal Audit Director should not design or implement procedures for other agency divisions that may be subject to future review by the Division of Internal Audit. The Internal Audit Director must not implement controls for new systems as this could compromise the Internal Audit Director's objectivity. When new programs are being implemented, the Internal Audit Director may offer suggestions for controls without impairing objectivity.

The Internal Audit Director shall maintain high standards of conduct, honor, and character so that credibility and integrity are not impeached or otherwise questioned. The Internal Audit Director will subscribe to the Codes of Professional Ethics and Standards as promulgated by the Institute of Internal Auditors (IIA), and Commonwealth of Kentucky Personnel Policies, and Kentucky Executive Branch Code of Ethics.

Internal Audit Charter

The KRS Division of Internal Audit Administration Charter establishes the authority and responsibilities of the Division of Internal Audit Administration conferred by the Audit Committee of the Board. The Charter is reviewed annually and approved by the Audit Committee and the Board.

Audit Committee Charter

The Audit Committee Charter establishes the authority and responsibility of the Audit Committee of the Board of Trustees. It is approved by the Audit Committee and ratified by the Board.

Internal Audit Budget

The Audit Committee approves a biennial budget for IA based on the audit plan, outside resources, and technological needs. The Internal Audit Director prepares the budget for the Audit Committee's approval. The Board ratifies the Internal Audit budget. The Internal Audit Director provides an "actual to budget comparison report" for the Audit Committee's review during each quarterly Audit Committee meeting. The Audit Committee Biennial Budget should be presented to the KRS Executive Director – Office of Operations for inclusion in the KRS Biennial Budget Request.

Composition

IA was established in July 2003 and is currently comprised of three positions: Division Director, Assistant Director, and Internal Auditor. In October 2009, the Investment Compliance Officer position was placed under the IA organizational structure and reports directly to the Internal Audit Director. Currently, the Assistant Director serves as the Investment Compliance Officer.

Internal Audit Staff Responsibilities

Division of Internal Audit Administration Director

Oversees the creation and assessment of compliance audits with financial, operational, and IT controls in accordance with the Board and management specifications. Ensures policies, programs, and procedures are in place to achieve strategic, risk management, and operational objectives. Responsibilities include performing operational, financial, and system audits in support of the KRS internal audit plan; evaluation of adequacy and effectiveness of internal controls; assessment of governmental and regulatory compliance; and recommending improvements to mitigate risks and improve controls. Reviews accounting systems in order to identify strengths and weaknesses, recommend new methods, and propose new controls or modifications to current controls.

Assistant Director/Investment Compliance Officer

The primary responsibility of the Assistant Director is to serve as the KRS Investment Compliance Officer. Job duties include, but are not limited to the following activities:

- Perform daily, quarterly, and annual reviews of purchases, sales, income transactions, portfolio composition, cash management, and other investment related activities.
- Audit the activities and various functions of investment operations, as contained within the annual Audit Plan and requested by management, to ensure proper internal controls and compliance with internal policies and procedures and governmental policies and procedures.
- Adequately document all test work, prepare work papers, and draft written reports for each assignment.
- Communicate audit results to Internal Audit Director, KRS Executive Director, , Executive Director of the Office of Investments, Investment Committee, and Audit Committee.

Internal Auditor

The main responsibility of the Internal Auditor is to support the Director and Assistant Director in completion of daily activities. Job duties include, but are not limited to the following activities:

- Audit the processes and functions of various internal operations to ensure proper internal controls and compliance with internal policies and procedures and governmental policies and procedures.
- Plan and conduct compliance, operational, and financial audits.
- Complete special project requests as assigned.
- Adequately document all test work, prepare work papers, and draft written reports for each assignment.
- Communicate audit results to Internal Audit Director.

Specific Areas of Expertise

Since IA has limited resources and specialized requirements are needed to administer a complex public pension system, IA may request third-party expertise to assist in fulfilling audit goals (e.g. information technology, data security, and investment monitoring).

3. Internal Audit Services

IA provides independent auditing and consulting services to assist management in balancing operational efficiency with risk identification, assessment, and control. IA reports to the Audit Committee and the Board and collaborates with KRS management to enhance assurance and accountability at all levels of KRS. In order to meet the responsibilities and objectives as set forth in the Audit Charter, it is necessary for IA to perform reviews and audits of varying types and scopes depending on the circumstances and requests from management. Each fiscal year an Audit Plan is developed and submitted to the Audit Committee and the Board for review and approval. The Audit Plan is based on a risk assessment methodology as well as requests from management and the Audit Committee. Employees of KRS can also request audit services. IA provides the following types of audit services:

Financial Audits

A financial audit is a review intended to serve as a basis for expressing an opinion regarding the fairness, consistency, and conformity of financial information with generally accepted accounting principles (GAAP). Financial audits can be comprehensive or limited in scope depending on the objectives. A comprehensive financial audit consists of a review of the financial statements of an entity over a specific duration of time to accurately express an opinion on those statements. Such an audit is conducted in accordance with generally accepted auditing standards (GAAS) as adopted by the American Institute of Certified Public Accountants (AICPA).

Prior to presentation to the Audit Committee, the Internal Audit Director will review the Annual Independent Audit Report, Management's Discussion and Analysis, Financial Statements, and footnotes. The Internal Audit Director will discuss with Executive Management and the external auditor any perceived errors or discrepancies. However, KRS management, not the Internal Audit Director, is responsible for the substantive content, accuracy, consistency, and completeness of Management's Discussion and Analysis, Financial Statements, and footnotes.

Financial audits are more limited in scope and concentrate on a review of specific financial transactions. The primary concerns include determining accuracy of data and evaluation of controls by reviewing the following items:

- Physical control over assets,
- System of authorization and approval,
- Separation of duties between operations and custody of assets.

Compliance Audits

Compliance audits determine whether a division has complied with KRS policies and procedures, departmental policies and procedures, [Kentucky Administrative Regulations](#), [Kentucky Revised Statutes](#), and federal law.

Operational Audits

Operational audits are concerned with the effectiveness and efficiency of business units to attain organizational and departmental objectives. Effectiveness measures how successfully an organization achieves its goals and objectives. Efficiency measures how well an entity uses resources to achieve its goals.

Investment Audits

Investment compliance is monitored daily and results are presented on a quarterly basis to the Internal Audit Director, KRS Executive Director, Executive Director of the Office of Investments, Investment Committee, and Audit Committee. In addition, investment audits may be performed to review movement of funds (e.g. purchases, sales, and income), portfolio composition, cash management, manager fees, and other investment related activities. Investment audits may also be performed to ensure compliance with procurement regulations, contracts, internal policies and procedures as well as to ensure proper internal controls exist over the investment function.

Special Projects

Special projects include but are not limited to:

a. *Information Technology Audits*

Audits of information systems and technology may be performed to determine whether existing or new computer applications and hardware function in an accurate and efficient manner and include adequate internal controls. Audit involvement in a new system may include the review of system development methodology and the effectiveness and efficiency of the system being implemented. These audits could include reviews of general controls which affect all computer applications. Examples may include computer security, disaster recovery, program change controls, and quality control procedures.

b. *Investigative Audits*

Investigative audits may result from findings during a routine audit or from information received from personnel. These audits are normally requested by management, Board of Trustees, and/or anonymous tips and focus on alleged, irregular conduct. Reasons for investigative audits may include: internal theft, misuse of State property, and/or conflicts of interest. The audit should be conducted immediately, collecting and preserving as much relevant evidence as possible. It is essential that the records in question be removed from the department/employee under investigation or otherwise safeguarded. Investigative audits will be conducted in accordance with IA procedures and may include expertise from internal and external experts in fields, such as but not limited to, legal, information technology, human resources, and accounting. A draft investigative audit report will be provided to the Audit Committee. The Audit Committee will determine if further actions are needed. The Audit Committee will control any internal or external report distribution.

c. *Management Audits or Reviews*

A management audit assesses the quality of the decision-making process and the information environment. These audits may be requested by the senior officers or the Board of Trustees and may also be performed as needed in response to particular findings identified during the course of performing other types of audits within a particular department.

A management review is performed on a specific business process. It assesses the effectiveness of internal controls over the process as well as tests the efficiency of the process. These reviews also help ensure the business process is operating the way management intended. These reviews are requested by the senior officers or the Board of Trustees and are typically performed in conjunction with a new business process being developed or immediately after a new business process is implemented.

d. *Performance Audits*

These are audits that provide an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action. Performance audits include, but are not limited to, reviews of departmental procedures and operations to determine whether:

- The duties and responsibilities are being performed in the most efficient and economical (cost effective) manner.
- Activities are properly authorized by management.
- The management system has the capacity to ensure compliance with applicable laws, regulations, contracts, and policies.
- Operations actually conform in all material respects to applicable laws, government regulations and standards, contracts, policies, and industry standards.

e. *External Audit Assistance*

Assistance may be provided to the External Auditor and/or the State Auditor during the annual audit of the KRS financial statements. The Internal Audit Director will work with the external auditors to foster a cooperative working relationship; reduce the incidence of duplication of effort; ensure appropriate sharing of information; and ensure coordination of the overall audit effort. Upon request, the Internal Audit Director will make available to the external auditors all internal audit working papers, programs, flowcharts, and reports. The Internal Audit Director annually will review the resulting management letter comments to determine any impact upon the annual Internal Audit Plan.

f. *Referencing*

During the course of various types of audits, the Internal Audit Director may identify continuing patterns of conduct or reoccurring “themes” (e.g. the same type of problem is noted for different departments). For example, findings for two divisions within an office, which identify a broader office finding (e.g. lack of controls, need for increased

communication, absence of performance criteria, insufficient data processing policy, etc.). When compiling the annual Internal Audit Department Results Report, IA always considers these themes when scheduling audits for the next period, particularly when these items impact the KRS mission.

Board of Trustee Elections

IA assists in each Board election (Kentucky Employees Retirement System, County Employees Retirement System, and State Police Retirement System). During elections, IA is responsible for the following:

- Preparing the request for nominations.
- Accepting and reviewing applications.
- Preparing the ballot voting letter sent to each member.
- Ensuring ballots are properly generated.
- Working with External Auditors to ensure ballots are properly received and counted by an outside party.
- Tracking undeliverable ballots and communicating this information to the Division of Member Services.
- Tracking ballots submitted to the KRS mailing address.
- Preparing the Congratulatory Memorandum to the successful candidates and Regret Memorandums to the unsuccessful candidates.
- Presenting the results of the elections to the Executive Director, Executive Management, Audit Committee, and Board.

4. Internal Audit Practices

Conflicts of Interest

Internal Auditors shall be objective and free from undue influence in performing their job. Objectivity requires internal auditors to have an impartial and unbiased attitude, to avoid conflicts of interest, and to perform audits in such a manner that no significant quality compromises occur. To help ensure that internal auditors are not placed in an environment impeding their ability to make objective, professional judgments, the IA will take the following precautionary measures:

- Each internal auditor will be required to complete an annual Conflict of Interest Statement certifying that auditors have no actual or perceived conflict that would impair their objectivity or independence. This statement will be signed by the auditor's direct supervisor.
- Staff assignments will be made so that potential and actual conflicts of interest and bias are avoided. If a conflict of interest or bias is present, the auditor(s) will be reassigned.
- Staff assignments will be rotated periodically, if practicable to do so.
- Internal auditors will not assume operational responsibilities.
- For a period of no less than one year, internal auditors will refrain from assessing specific operations for which they were previously responsible.

Due Professional Care

Internal auditors shall apply the care and skill expected of a reasonably prudent and competent auditor. Due professional care does not imply infallibility and internal auditors must exercise due professional care, with consideration of the following:

- Extent of work needed to achieve the engagement's objectives.
- Relative complexity, materiality, or significance of matters to which assurance procedures are applied.
- Adequacy and effectiveness of risk management, control, and governance processes.
- Probability of significant errors, irregularities, or noncompliance.
- Cost of assurance in relation to potential benefits.
- Use of various software tools including, but not limited to Excel, Access, Word, Interactive Data Evaluation and Analysis (IDEA), and Gravity Software

Proficiency and Continuous Professional Education (CPE)

Auditors shall collectively possess the knowledge, skills, attributes, and other competencies essential to the practice of internal auditing within the organization. Educational and work experience criteria have been established for the various positions within IA. In order to maintain their proficiency, all auditors are encouraged to continue their education and will be provided adequate opportunities to do so. Such continuing education ensures that internal auditors remain current on professional techniques and standards. Continuing education hours are also necessary to meet certification requirements. Internal auditors are encouraged to obtain professional certification(s). Accreditation is an important indicator of an auditor's technical proficiency. Certification as a Public Accountant, Internal Auditor, or Information Systems Auditor is encouraged for all departmental personnel. If no certification requirements are necessary, a minimum of 16 hours of continuing auditor education shall be obtained annually. Continuing education may be obtained through membership and participation in professional societies, attendance at conferences, college courses, and in-house training.

In addition, members of the Institute of Internal Auditors (IIA), The American Institute of CPAs (AICPA) and/or the Kentucky Institute of CPAs (KyCPA) must satisfy the requirements of those respective organizations. KRS may reimburse an auditor for the cost of obtaining continuing education; however, the employee should obtain approval prior to registering for any course or seminar.

Performance Evaluations

Performance evaluations for merit employees shall be conducted as outlined in the Commonwealth of Kentucky Personnel Policies and Kentucky Revised Statutes chapter 18A. The Audit Committee Chair and Executive Director shall review the performance of the Internal Audit Director.

Quality Assessment and Improvement Program

The Division of Internal Audit Administration will maintain a quality assurance and improvement program that covers all aspects of the IA function. The program will include an evaluation of IA's conformance with the *International Standards for the Professional Practice of Internal Auditing* and an evaluation of whether internal auditors apply the IIA's Code of

Ethics. The program will also assess the efficiency and effectiveness of IA and identify opportunities for improvement.

Internal Assessment (Ongoing and Periodic)

Ongoing Internal Assessments

Ongoing internal assessments for routine internal audit activities are an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. The measurement tools for assessment are engagement supervision, feedback from audit customers, audit plan completion, and analysis of other performance metrics such as recommendations accepted. Conclusions and planned corrective action will be developed and presented to the Audit Committee and KRS Executive Director.

Periodic Assessments

Annually, the Division of Internal Audit Administration will conduct a Self-Assessment as outlined by the IIA. The Director of Internal Audit will disclose the results of the Self-Assessment and any needed corrective action to the Audit Committee and KRS Executive Director.

External Assessments

At least once every five years, a qualified, independent assessor (or assessment team) will conduct an external assessment. This can be completed as either a Self-Assessment with Independent External Validation or a full external assessment.

Records Retention and Disposition

IA shall retain a complete file of each audit report and each report of other examinations, investigations, surveys, and reviews made under its authority in accordance with the KRS records retention policy or policies of the Kentucky Department for Libraries and Archives for a period of seven (7) years. The file shall include audit work papers and other supportive material directly pertaining to the report. To guard against identity theft and fraud, destruction of business records and materials shall be done in a secured manner such as through use of the on-site Division of Waste Management recycle containers. All CD/DVD materials shall be submitted to the Information Security Officer.

5. Internal Audit Procedures

Risk Assessment Process

The Audit Plan is based on a risk assessment methodology, as well as requests from management. IA assesses KRS by seeking input from key members of management and other personnel (via interviews, emails, etc.) as well as reviewing the results of internal and external audits. IA then considers organizational risks, such as established internal controls, current management and control environment, staffing, system changes, regulatory and legal changes, and impact to the financial statements. Based on the information gathered, an Audit Plan is developed weighting each risk according to the significance to the overall mission and objective of KRS.

The Risk Assessment Methodology is based upon the following six-part process:

- Identifying KRS division activities.
- Establishing the “audit universe” (areas of concern for KRS).
- Scoring the organizational risks for each identified areas in the “audit universe.”
- Ranking the auditable areas.
- Developing the Audit Plan.
- Submitting the Audit Plan to the Audit Committee for review and approval.

Organizational risks are scored using a point value with one (1) representing the lowest level of risk and five (5) the highest. The individual factor scores are then multiplied by the risk weight factor. The weighted risk factor elements are collectively totaled to obtain the respective aggregate risk rating for each auditable area. The overall risk scores for all KRS activities are then ranked highest to lowest. After ranking, an Audit Plan is developed.

Internal Annual Audit Plan

Based upon the Risk Assessment Model, IA develops the Audit Plan through a prioritization process scheduling audits for the highest risk areas. The Audit Plan represents potential audits. IA also identifies other potential audit segments such as business processes, expense contracts, and functional areas that may cross over operational units.

The Risk Assessment Model and Audit Plan are presented to the KRS Executive Director in order to obtain suggestions, concerns, and priorities. After approval of the Audit Plan obtained from the KRS Executive Director, the Audit Plan is submitted to the Audit Committee for approval. The Audit Plan is periodically reviewed, evaluated, and modified (e.g. objectives, goals, and strategies) according to the specific risk factors related to KRS’ operations, internal controls, and estimated liability exposure to the Commonwealth of Kentucky. Staff is assigned to audits based upon that auditor’s background and experience.

IA staff continually track audits using the Audit Status Tracker spreadsheet, which includes dates for significant milestones. IA staff also performs projects (not foreseen during risk-assessment/planning), which are requested by Executive Management during the fiscal year. These are also tracked on the Audit Status Tracker spreadsheet. All findings and recommendations, including status and implementation date, are tracked through Gravity Software.

Audit Procedures

There are seven phases to each audit.

a. *Planning Phase:*

1. Establish audit objectives and scope.
2. Prepare engagement letter and notify auditee of the audit, including the scope.
3. Conduct preliminary research of agency policies and procedures, state regulations, and federal regulations.
4. Review previous audit reports and document findings and conclusions that may affect the scope of the current engagement.
5. Conduct entrance conference with auditee and document results.
6. Perform walkthroughs or preliminary surveys to identify internal controls and risks.

7. Prepare flowchart(s) and/or narrative(s) based on walkthrough/survey results.
8. Conduct risk assessment and fraud brainstorming session(s) with IA management.
9. Develop an audit program with scope, risks, nature, and extent of testing required to achieve the objectives of the engagement.
10. Submit audit program for supervisor approval. Approvals will be documented through electronic audit software.

b. *Fieldwork Phase:*

1. Perform analytical procedures. If applicable, use Computer Assisted Audit Tools and/or IDEA audit software to obtain sample and/or perform testing.
2. Complete testing procedures outlined on the Audit Program.
3. Reevaluate risks to determine if additional significant risks were noted during fieldwork that need to be tested.
4. Meet with auditee to discuss findings and conclusions noted. Determine if there is additional information that can be provided to clear any exceptions noted during fieldwork. If not, work with auditee to determine the cause of the exceptions and possible recommendations.
5. Develop findings for exceptions noted during fieldwork. Each finding must include the condition, criteria, cause, effect, and recommendation.
6. Verify that each step in the audit program has been performed.
7. Submit fieldwork, including findings to supervisor for review. Approvals will be documented through electronic audit software.
8. Once supervisor review is complete, write draft audit report. Ensure the report includes audit objective, scope, and methodology; background on the auditee; reasonable assurance; and findings. Again, each finding must include the condition, criteria, cause, effect, and recommendation.
9. Ensure draft report(s) are appropriately identified and embossed with the language or watermark "DRAFT" on the document.
10. Submit to supervisor for approval. Approvals will be documented through electronic audit software.

c. *Completion Phase:*

1. Conduct an exit conference with auditee to review findings and recommendations.
2. Verify that work papers are adequately indexed, initialed, cross-referenced, and dated.
3. Complete the necessary work paper review checklist.
4. Verify that the last date of fieldwork is recorded on the audit program and the audit report.
5. Update the Audit Status Tracker spreadsheet with all date information.

d. *Reporting Phase:*

1. After conducting an exit conference and after supervisor approval, issue the draft report to auditee management for response (with a contemplated two week response time). Approvals will be documented through electronic audit software.
2. Obtain management's response for each recommendation.
3. Incorporate management's response into the draft audit report.

4. If necessary, provide an IA response.
 5. Write the Audit Report Memorandum (addressed to Audit Committee Chair),
 6. Submit the Audit Report Memorandum to IA supervisor for approval. Approvals will be documented through electronic audit software.
 7. Internal Audit Director will issue and distribute the final audit report to the applicable management and interested parties.
- e. Post-Audit Client Survey:**
1. Send Post-Audit Client Survey to auditee management for quality purpose.
 2. Obtain questionnaire responses in a timely manner.
 3. Make improvements in next assigned audit.
- f. Preparation for Audit Committee Meeting:**
1. Prepare Audit Committee Meeting Agenda.
One week prior to the Audit Committee meeting, send audit reports and other information to Audit Committee members and Chair for advanced review.
- g. Follow-up:**
1. Follow-up on all audit recommendations to determine the status of the implementation of each recommendation.
Note: this can be performed as a separate engagement or can be included during future audit engagements when IA staff review prior reports for findings that could affect the current engagement.

Audit Follow-up Procedures

a. Purpose

1. To determine that corrective action was taken and is achieving the desired results or that Executive Management or the Board has assumed the risk of taking no corrective action on reported observations.
2. To determine the adequacy, effectiveness, and timeliness of actions taken by management on reported engagement observations and recommendations, including those made by external auditors and others.

b. Procedures

1. Ninety (90) days after implementation date or final report is issued (if no implementation date provided), if: (i) IA obtains management's oral or written response indicating that action has been taken and (ii) IA determines the action is sufficient when weighted against the relative importance of the engagement observation or recommendation, then follow-up may be performed as part of the next engagement. Please see step two for action taken if management does not provide a response or if the response does not fully address the findings and conclusions.
2. Ninety (90) days after implementation date or final report is issued (if no implementation date provided), a copy of the finding, generated from electronic audit software, will be sent to the individual(s) whose responses are reflected in the final report. Each addressee will be asked to indicate the status of achieving the recommendations listed on the generated report and return it to IA. For any

recommendation not already implemented, the auditee will be asked to provide the targeted implementation date or an explanation why the recommendation cannot be implemented. If current recommendation cannot be implemented, auditor will request a description of any alternate solutions implemented or planned.

3. After obtaining management's written response, IA will verify the implementation status of recommendations related to findings through use of a follow-up audit. Scheduling a follow-up audit will be predicated on the risk and exposure involved as well as the degree of difficulty, cost, and significance of timing in implementing corrective action.
4. For any unimplemented recommendations relating to significant findings, IA will continue to perform a quarterly follow-up with the appropriate individuals.
5. If Executive Management has accepted a level of residual risk that is unacceptable to the organization and the residual risk is not resolved, the Audit Committee will be informed of Executive Management's decision.

Investment Audits/Reviews

The Assistant Director (Compliance Officer) of the Division of Internal Audit will conduct investment audits and reviews following the audit procedures stated above; however, in addition to sending the draft report to management for response, a draft report will also be prepared for the Investment Committee. A final copy of the audit report with responses from both auditee management and the Investment Committee will be provided to the Audit Committee at the next scheduled meeting.

6. Investment Compliance Procedures

a. Daily Exception Compliance

1. BNY Mellon's Global Risk Solutions group runs the Kentucky Composite Report and emails it daily to the Investment Executive Director, Compliance Officer, and Internal Audit Director. The composite reports test the previous business day's activities against the restrictions set forth in the Investment Policy.
2. The Compliance Officer reviews the Kentucky Composite Report and tracks compliance exceptions in an Excel spreadsheet.
3. If an asset class has four (4) or more exceptions within a month, that asset class is deemed non-compliant.
4. All items not in compliance are investigated.
5. If the non-compliance appears to be a technical issue, the Compliance Officer contacts BNY Mellon to resolve the issue. If the exception is legitimate, the Compliance Officer contacts the Director of the asset class generating the exception to determine the cause.
6. The cause is noted in the Excel tracking spreadsheet.
7. These reports are rolled into the Quarterly Compliance Report and at the end of the quarter, any guidelines consistently out of compliance are listed on the KRS Compliance Checklist

b. Quarterly Compliance Report

1. BNY Mellon's Global Risk Solutions group emails the KRS Monthly Performance Reports for both the Pension and Insurance plans for the related quarter end date to all employees in the Office of Investments, Compliance Officer, Assistant Director of Accounting – Investment Operations Branch, Accounting Branch Managers (Investment Operations and Cash Management), Accounting Director, and Internal Audit Director.
2. The Performance Reports are used to determine short-term and long-term returns for Kentucky Employees Retirement System (KERS), Kentucky Employees Retirement System Hazardous (KERS-H), County Employees Retirement System (CERS), County Employees Retirement System Hazardous (CERS-H), and State Police Retirement System (SPRS). Performance is measured against benchmarks established by the Investment Committee and approved by the Board.
3. The Performance Reports are also used to determine returns by asset class which are benchmarked to indices established in the Investment Policy.
4. KRS receives a Total Plan Attribution Detail by Asset Assignment report for both the Pension and Insurance plans for the related quarter end date. These reports compare end of period asset allocations to targets established by the Investment Committee and approved by the Board.
5. These reports provide detailed asset allocations for KERS, KERS-H, CERS, CERS-H, and SPRS for both Pension and Insurance.
6. BNY Mellon's Global Risk Solutions group emails KRS quarterly Peer Comparison Reports for both the Pension and Insurance plans to the Compliance Officer and Internal Audit Director. KRS can glean short-term and long-term data in regard to volatility and KRS' peer universe.

7. Outsourced Third Party Audits

Outsourced third party audits will be approved by the Audit Committee. The findings, recommendations, and management comments will be presented to the Audit Committee for approval and for subsequent ratification by the Board.

8. Management Requests (Special Audits)


Management requests (special audits) not previously identified on the Audit Plan shall be forwarded to the Audit Committee Chair for approval. The Chair will determine if a special called meeting of the Audit Committee is necessary to discuss the management request (special audits). If the Chair determines that a special called meeting is not warranted, then management requests will be added to the Audit Plan and reported to the Audit Committee on the "Status of the Audits Memorandum" at the next regularly scheduled Audit Committee meeting. The audit procedures outlined in Section five (5) above will be followed.

9. Resources

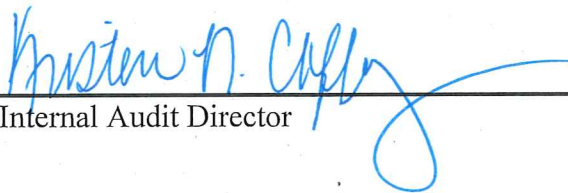
- American Institute of Certified Public Accountants
- Kentucky Society of Certified Public Accountants
- Kentucky State Auditor of Public Accounts
- Kentucky State Board of Accountancy
- United States Government Accountability Office
- Government Accounting Research Systems
- Association of Government Accountants
- Association of Public Pension Fund Auditors
- Governmental Accounting Standards Board
- Government Finance Officers Association
- Institute of Internal Auditors (IIA)
- The IIA Standards
- The IIA – Code of Ethics
- The IIA – Louisville Chapter
- The IIA – Central Kentucky Chapter
- The IIA – The Tri-State (Evansville) Chapter
- Kentucky Revised Statutes
- Kentucky Administrative Regulations
- Kentucky Personnel Code of Ethics
- Kentucky Records Retention
- Committee of Sponsoring Organizations of the Treadway Commission (COSO)
- Control Objectives for Information and related Technologies (COBIT)
- Audit Dictionary
- Guidelines to the Assessment of Information Technology Risks (GAIT)

10. Approvals

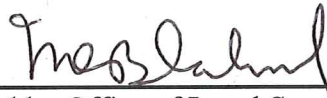
We, the undersigned of the Kentucky Retirement Systems, do certify that this Internal Audit Policies and Procedures Manual was approved on September 12, 2019.



Executive Director, Kentucky Retirement Systems



Internal Audit Director



Reviewed by Office of Legal Services